European Commission

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Similarities and differences between GFSM 2014/ESA 2010/SNA and IPSAS/EPSAS

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IPSAS and EPSAS - 1

Commission assessment of the suitability of IPSAS for the EU Member States (Report and Staff Working Document), March 2013:

IPSAS could not easily be implemented in EU Member States as it then stood.

IPSAS standards represented an indisputable reference for potential EU harmonised public sector accounts (EPSAS).

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IPSAS and EPSAS - 2

Key issues raised:

IPSAS options and choices would limit harmonisation in practice;

Technical points - coverage or applicability to some important flows (e.g. taxes and social benefits);

Conceptual - the IPSAS conceptual framework was under preparation;

Governance – sovereignty issues concerning direct endorsement of IPSASs, insufficient participation from EU public-sector accounting authorities.

IPSAS and EPSAS - 3

Since 2013:

Substantial progress on the IPSAS technical agenda;

IPSAS conceptual framework completed;

IPSAS governance reviewed and modernised;

Good cooperation between IPSAS and EPSAS teams.

IPSAS and ESA/GFS differences, Commission Staff Working Document (SWD), 2013 - 1

Chapter 2 - International Public Sector Accounting Standards;

Chapter 4 - Relationship between IPSAS and SNA/ESA/GFS.

IPSAS and ESA/GFS differences, Commission Staff Working Document, 2013 - 2

Many similarities between IPSAS and ESA/ GFS. Both systems seek to prepare an integrated and consistent dataset, with accruals as the guiding principle;

However the systems have different objectives, and there are some differences of both substance and presentation;

Financial statements based on IPSAS are predominantly intended to serve accountability and decision-making;

GFS is for macroeconomic analysis, with emphasis on the comparability of aggregate data (uses aggregate recognition and measurement). IPSAS is a micro accounting framework (individual recognition and measurement of events and transactions).

Three main differences, SWD, 2013 - 1

Treatment of revaluations

ESA/GFS record all holding gains and losses (revaluations) in a separate account for ‘other economic flows’, not in recorded revenues, expenditures, or net lending/net borrowing. This reflects the view that revaluations can be considered as not being under government control and are therefore not relevant to fiscal policy analysis.

IPSAS requires many revaluations and changes in value to be recorded in the Statement of Financial Performance (and therefore in the ‘bottom line’). Exceptions to this are foreign exchange gains/ losses related to foreign subsidiaries and revaluations of property, plant, and equipment. These value changes are included in a separate financial statement, the Statement of Changes in Net Assets/Equity.

Three main differences, SWD, 2013 - 2

Recognition criteria for assets, liabilities, revenue and expenses

ESA/GFS recognizes fewer (or later in time) liabilities than IPSAS.

Guarantees, and related contingent liabilities, are generally not recognised in ESA/GFS until they are called. IPSAS requires that if there is a present obligation and an outflow will probably occur, a reliable estimate of the amount should be recognised as a liability.

IPSAS provides for the recording of provisions, including obligations for which there is no counterparty e.g. restructuring and environmental restoration. ESA/GFS do not record provisions because the national accounts system is necessarily symmetric and the values of assets and related liabilities must match.

Three main differences, SWD, 2013 - 3

Valuation

ESA/GFS calls for current market prices as the valuation basis for assets and liabilities. However, for example property, plant and equipment, IPSAS allows the use of either historic cost, or a number of current value measurement bases using current market prices.

Consequence: differences between depreciation in IPSAS accounts and consumption of fixed capital in ESA/GFS (which is a current prices-based aggregate concept).

IPSAS expenses depreciation in the Statement of Financial Performance during the useful life of an asset, while ESA/GFS expenses gross fixed capital formation at once in surplus/deficit. ESA/GFS does not recognize impairments.

IPSAS/ EPSAS and ESA/ EDP

IPSAS and ESA are two sets of standards which are independent from one another serving two separate sets of reporting frameworks.

No automatic link and no conceptual or methodological reason for IPSAS or EPSAS to impact on Maastricht debt or deficit figures.

No evidence that previous national accruals reforms provoked uncontrolled or dramatic consequences on key indicators.

No reason to expect a picture of the past through substantial or systematic changes to any given individual MS's set of macroeconomic indicators.

EPSAS is a forward looking reform.

Investment under IPSAS/ EPSAS and GFS/ EDP

- EPSAS serves financial management and audit purposes.
- EPSAS would give a different but complementary view on the impact of investment as compared to EDP.
- It provides a longer term perspective as the impact on deficit is spread over the lifetime of the asset, supporting a sustainable investment policy.
- The investment asset under EPSAS is recorded alongside with the liability, and the net impact on the financial position is provided.

Terminology – potential for confusion

• Deficit in EPSAS	=	net increase / decrease in net worth
• Deficit in GFS/ EDP	=	net lending / net borrowing
• Deficit in EPSAS	≠	deficit in GFS/ EDP

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Current position on EPSAS/ ESA

- Financial reporting and statistical reporting serve different purposes but are complementary. Both are needed;
- EPSAS cannot be expected to fully align with ESA but some differences may be eliminated; Distinguish between differences which are important for serving the aims of the accounting/ statistical reporting and those which are not;
- Build accounting systems and charts of accounts to serve both accounting/ statistical reporting;
- EPSAS can contribute to improving the reliability of ESA data.

Current work on EPSAS/ ESA

Twenty EPSAS Issues Papers, 2016 -18

- How to approach each of key issues from an EPSAS point of view (taxes, social benefits, grants, …);
- Focus on key public sector specific issues raised as particularly important by MSs' experts and EPSAS stakeholders. Input to future discussions;
- Accounting treatment in IPSAS/IFRS/Commission’s own accounting rules, selected Member States, ESA/GFS;
- Possible ways forward for EPSAS and their pros and cons.

European Commission (Eurostat) Task Force EPSAS:

[*http://ec.europa.eu/eurostat/web/government-finance-statistics/government-accounting*](http://ec.europa.eu/eurostat/web/government-finance-statistics/government-accounting)

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